

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION

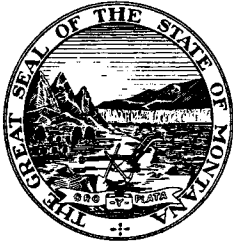


Exhibit No. 2
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Bill No. SB-64

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Chairman Squires and Members of the State Administration Committee:

My name is Connie Welsh. I am Administrator of the Health Care and Benefits Division within the Department of Administration. I am appearing before you today as an opponent of SB 64.

While we certainly recognize the issue of the uninsured and understand the intent of expanding health care coverage, this bill accomplishes coverage in a manner that is not in the best interests of the State as an employer or taxpayers who ultimately provide the funds necessary to pay for these services.

This bill reduces the number of hours that an employee must work from roughly half-time (20 hours per week) and being regularly scheduled to work 6 months or more in the year to working one-fourth time (10 hours per week) and being regularly scheduled to work 3 months or more in a year. The State must pay the state share for these additional employees. The purpose is to expand eligibility for employees and their dependents on the State Employee Health Plan. The following are areas of concern:

1. Cost- By expanding the State Plan to permit much more liberal eligibility for benefits, the cost of the additional state share will increase. We have two groups that will cost more money; (1) those employees who currently work part time for the State and do not receive benefits now (typically in agencies such as Dept of Revenue, FWP, DPHHS, and DNRC) and (2) new employees who will seek jobs with the state just to receive benefits with the lower eligibility work requirements.
2. Financing- Currently the State as an employer pays about 2/3 of the cost of the total State Plan. By using state share, the State pays 100% of the employee cost and subsidizes premiums for retirees and dependents on the Plan. Even though retirees pay 100% of their premium, they do not pay 100% of their true costs. If additional employees and dependents are added to the plan, the pressure on state share dollars will increase and either the State will need to enhance the expenditure for state share or begin to shift more of the Plan cost to employees, retirees, and their dependents. This would essentially mean that State employees and retirees would be financing the cost of covering additional uninsured, for any costs that exceed state share contributions and dependent premium contributions. The only way this will not happen is if the newly eligible employees and their dependents costs are ENTIRELY covered by the state share contribution and the out-of-pocket premiums charged to cover these dependents. As employees age, particularly in the retiree population, we already know these costs are not covered.
3. Adverse Selection - We know currently that certain employees seek jobs with the state primarily because they need coverage for health care conditions, either for themselves or dependents. While we have pre-existing conditions exclusions, unless we have information about the condition already or the member responds truthfully to inquiry forms sent by the insurance administrator about pre-existing conditions, we are unable to protect the Plan from the impact of adverse selection. We have observed that in the case of breast cancer, the State is attracting a disproportionate population of employees who seek jobs because they have been diagnosed with this condition and need health insurance. We would expect more instances of adverse selection particularly given the requirement for how many months an employee must be scheduled to work is reduced along with the number of hours per week.
4. Employment Relationship - The State offers health care as a part of the employment reimbursement/benefits package, in return for the services rendered by employees. By reducing the number of hours that are necessary

for an employee to work to access this benefit, it means that the State is providing coverage more as a public policy (which may be appropriate), but less as a function of the employment relationship. As an example, the state share for 2007 is \$557 per month, which would be paid toward insurance for each of the part-time employees. If an employee only worked 10 hours per week and made the estimated average salary for a state employee for 2007 of \$19.27 per hour, they would earn about \$835 per month in wages on average. The insurance contribution adds another 67% benefit on top of the salary. For a full-time employee, the percentage of additional benefit contributed to an employee's overall compensation by insurance is closer to 15%.

5. Early Retirement – Given the ability of employees to earn state share contribution by working a minimum of 10 hours per week, state agencies would be under some pressure to permit employees to reduce hours and begin drawing on their PERS benefits. Currently 60% of state employees can retire within the next 5 years. The main reason they cite for not retiring is health insurance premiums costs. While it is attractive to the employees to be able to retire with the state contribution, it will substantially impact state government due to the 'brain-drain' if employees retire in large numbers. The pension plans are also likely to see an increase in those going out on retirement.

The fiscal note is very conservative and shows only on what could be specifically quantified from the existing employee population. Estimates about changes in demographics of employment or adverse selection anticipated in the plan are not shown as Benefits and Claims costs due to the difficulty of calculating these amounts. However, it would be unrealistic to believe that the state plan, and ultimately taxpayers, will not realize a cost as a result of these changes.

In 2-18-808, MCA the legislative purpose for authorizing the State Group Insurance plan was articulated. That purpose, including "...the state may provide state employees with adequate...group benefits in an efficient manner and at an affordable cost" was specifically incorporated in the division's mission statement which is:

"The mission of the Health Care and Benefits Division is to provide State employees/retirees with group medical, dental, prescription, life and other related group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program."

We do not believe SB 64 is the best way to deliver an efficient and affordable employer group benefits plan.

Thank you for your time today. I am available to answer questions or provide information to the committee.